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P R O C E E D I N G S

MR. TAŞPINAR: (in progress) Kemal Derviş, so let me use this opportunity or so to announce that a former colleague of Mehmet Şimşek, a former Minister of Finance, Kemal Derviş, is also now at Brookings, and we hope that from now on we will have even stronger human capital focusing on economic affairs.

Let me briefly introduce Minister Şimşek. As you see, he's very young. Yeah, he was born in 1967 in the Province of Batman in Turkey. And after a career as an economist, which included a very prestigious position at Merrill Lynch where he worked for seven years from 2001 to 2007 as head of economic and strategic research for the European region, Middle East, and Africa, he did something that we're all very familiar at Brookings, he decided to join the government. And he decided to actually run for office and became a Member of Parliament, if I'm not mistaken from the Province of Gaziantep. This was in 2007 and after getting elected to the Turkish Parliament, he had a meteoric rise to the Cabinet and became Minister of Finance and had the honor of basically navigating the Turkish economy in stormy times during these last two years of economic crisis. And we are, as I said, very honored and humbled that he accepted our invitation. He's here in town for the yearly

IMF-World Bank meetings, and he will give a talk and then has agreed to take questions. He will have to leave, however, a little bit earlier than scheduled because he's leaving for New York today. So I think we will end our meeting around, I believe, 10:30. Okay. So, Minister, please.

MINISTER ŞIMŞEK: Good morning. Thank you, Ömer, and I'm not Minister of Finance. We have a Finance Minister so while --

MR. TAŞPINAR: (inaudible)

MINISTER ŞIMŞEK: -- yes. First of all, I'm very pleased to be in the new global financial capital of the world, Washington, okay? I guess you're not surprised; it used to be New York. Now all of the decisions about economics are made here. But I'm very pleased to be at Brookings again. You know, when I was here last time, the world was so different, amazingly different, and today, of course, we're faced with a very different set of challenges and economic backdrop.

Now let me tell you that even though there are tentative signs of improvement in both U.S. economy or global economy in terms of consumer confidence, business sentiment, global financial system and global economy remains under severe stress. So that is really still the case even though we're out of panic levels, you know, extreme stress levels, but the stress continues. So, further global action will be needed to pull the world out of this crisis. And I think in the short run, the downside

risks to global economy outweigh concerns about money printing and medium-term implications of rising fiscal deficits.

Now, of course, we have to be very careful here in the sense that we need to anchor medium-term, long-term expectations. That is critical, obviously, to gain confidence. And by the way, confidence is probably a very scarce product right now, again globally. So while fixing something, we need to make sure that, obviously, the confidence in medium-long term, our ability to contain some of this pressure should be capped.

Now, where we are, obviously, as I said, there are some tentative signs, both out of Turkey and also out of United States and for much of the world, but there are still downside risks. And one of the key risks is that capital drought may continue because we've been -- in terms of global financial markets, in terms of credit mechanisms, credit markets -- we've been in something what you'd call Ice Age. I mean it's been frozen and not fully functioning, and it's still not functioning well even though, as I said, the stress level has come down. So the risk is that credit drought or credit crunch continues.

The second risk, of course, is that if we were to experience sizeable capital outflows or if capital outflows from emerging markets were

to continue, that would not be very helpful either. So that would be also another sizeable downside risk.

The third risk -- I've already mentioned it actually -- if confidence in medium-term policy framework or some of the actions we are taking today and their implications for medium-term is lost. Because right now, countries like United States or U.K., EU, they are printing money. If you look at the central bank balance sheets, some of them are sort of expanding extremely fast. So we need to make sure that there is confidence in the exit strategy.

Now I'm not here, of course, to tell you all about global backdrop. Let me tell you a little bit about the implication or the impact of global financial crisis on Turkey. While like everybody else, we have not been immune, and the impact, the global financial crisis impact on Turkey, has been quite significant. And, in fact, unlike United States and some other parts of the world, crisis in Turkey did not start in financial sector. It hit the real economy straightforward. So the -- there was -- still, actually, there is no significant or meaningful stress in the Turkish banking sector, for example. Turkish banking sector actually, relative to many countries, emerging or advanced, is in great shape. But that has not prevented Turkey from experiencing a significant contraction in the real economic activity, and that is still the case.

Why is this happening? Well, there are three issues here. The first punch is the credit crunch. There's actually a capital drought, as I mentioned earlier, globally but also it has implications for Turkey. Let's put it this way: In 2007, private capital inflows to emerging markets were about $929 billion. That was the peak in 2007. This is our private capital inflows to emerging markets. Last year, it fell by more than 50 percent or around 50 percent. This year, it's projected to fall to about $165 billion. Now this projection was made last year, October, so chances are if you were to take the IMF's latest set of estimates as a reference point -- their definitions may differ -- it's actually going to be negative. So there is a significant risk that emerging markets, including Turkey, are faced with capital drought or in other words, you know, unless policy action is taken, we could be starved to capital. And the implication is that, of course, credit will no longer be available as it used to be and that would mean weaker economic activity. And that's exactly what seems to be happening. So, essentially, what has started in the United States is threatening to undue some of very impressive gains in emerging markets, including Turkey.

Now the second punch is the trade shock. There is a sharp drop in external demand, and that is having a very, again, pronounced impact on countries like Turkey. Why? Because Turkey over the last few

years has, you know, really made impressive gains in terms of integration with global financial markets, but also gaining bigger share of global trade. Our exports in 2002 when we took the office were only $36 billion. Now that rose to $132 billion in September 2008 before Lehman's saga. Now that was, that really means almost we have quadrupled our exports. That is huge. And the composition of exports has changed in a way that has made Turkey more vulnerable to business cycles in places like European Union because last year, our biggest export item was almost -- it was close to, but second probably with a small margin -- it was auto exports. Last year we produced almost 1.2 million cars and exported 80 percent of that, 90 percent of which went to European Union. But European Union is in obviously weak shape. European Union is contracting. There is shrinkage in economic activity and demand has weakened significantly, which means there's a significant impact on Turkish export-oriented sectors such as, you know, auto, durables, and others. So for example, let's just take January. Your headline "Industrial output is down 20 percent" -- roughly speaking here -- but auto output is down, meaning manufacturing is down, 60 percent. So that makes the headline "Contraction in Turkish manufacturing activity" much bigger than what it would have been had there not been such, obviously, shrinkage in

external demand. So -- and, of course, that feeds through production and employment. So then that brings us to whole set of other issues.

There is a third channel of impact. I don't consider that to be a punch. It's confidence channel. Now unfortunately, enthusiasm was contagious and so is pessimism. Pessimism is contagious, and it's highly contagious because everybody looks at their screen, learns what's going on in the rest of the world, and they begin to basically reduce their consumption or investment. They delay their investment decisions, consumption decisions, and this is really what it means, essentially you end up with weaker private consumption, weaker private investments, and that translates into, obviously, weaker economic performance.

Now having painted this picture about the world and Turkey, let me move on, you know, how, what we're doing and, you know, what we're doing to limit the downside, but also to talk to you a little bit about why we believe that if and when, if and when, global financial markets begin to stabilize or begin to normalize, that Turkey would recover strongly and quickly.

So what makes Turkey different than some of other, you know, countries in relation to this crisis in terms of pulling out of this recession? First of all, I think it's very important to highlight that the banking sector is in very good shape. Don't take my word for it. Just look

at the numbers. Turkish banks, in 2007, they made a return on equity, meaning if their equity was $100, they made $25 profit. So return on equity in 2007 was 25 percent. That's quite good by any standards. So they were doing really well, even by 2007 standards. In 2008, return on equity was 19 percent. So down from 25 percent, but still making a hefty profit; 19 percent return on equity for banking sector in 2008 is as good as it can get, considering that many global names, many global banks, in Europe, in United States, even in the Gulf, in Kazakhstan, everywhere, let alone making a penny of profit, they were actually losing massive amounts of money. At Turkish banks last year, they were profitable.

Now typically another sign of health is that you look at capital adequacy ratio. That's why U.S. is now -- has just completed -- so-called "stress testing" to see whether they have enough equity. Well, last year -- I mean, I'm talking about early 2008 -- capital adequacy ratio in Turkey was about 21 percent. You only need 8 percent to legally comply with regulations. As of March this year, it's about 18 percent. So banks in Turkey, not only they're profitable, they're well capitalized. Now if you look at the problem loans, or problem assets -- first of all, we don't have "toxic assets" because Turkish banks didn't feel the need to tap into U.S. high-yield whatever, you know, toxic assets because they were making so much money in Turkey, they were so busy financing growth in Turkey,

they just didn't really have, you know, any reason to tap into relatively high-yield instruments here. But more importantly, NPL ratio, which is non-performing loan ratio, which basically look at non-performing loans as a percent of total loans, it was about 3.5 percent. It's now 4.2 percent, and there is very generous provisioning, meaning they have allocated a certain portion of equity or profit just in case if those non-performing loans really have to be written off. And so on a net basis, non-performing loans -- I don't want to make these very technical, but -- it's still around 1 percent. Even if these go up by ten times, the banking sector equity base is so strong that it can cope with such a shock, and that's, of course, one of the risks. So banking sector being in such a good shape, why didn't it help, you know, avoid, let's say, these downturns in the real economy? Well, typically banks, when there's so much dust in the air, when there is so little disability, of course, they're risk averse. Big companies in Turkey, they no longer demand loans. Why? Because their working capital requirements have fallen. Big companies are trading less, producing less, so their need for working capital is not there as much as it used to be. Of course, investments have been delayed so they're not tapping into project craze. But banks want to lend them. They don't want money. Now when it comes to small- and medium-size businesses, of course they have huge appetite. They do want to have credit, but the banks won't lend them

because they consider them to be relatively riskier. And, therefore, you've got this dilemma. And even though there are ways of alleviating some of these concerns through domestic steps, but ultimately a lot will depend on global health of financial system. You know why? Because in every country there is some reliance on cross-border lending. Banks borrow from each other, but many banks that were providers of capital to emerging markets like Turkey, they've either disappeared or they have huge balance sheet destruction. They've been either partially or fully nationalized, and so they no longer are there. And so the system, that's why it's risk averse and is not as helpful as it could be.

So my point is if and when things begin to normalize, if you have such a solid, such a strong banking system, you could be supportive of economic growth because it has all that it takes to be supportive. And so in that sense, that is one major plus for Turkey.

Now, what else? Now when I say this, of course, local press occasionally puts me on front pages, but I guess here in United States professional economists probably will understand a little bit more. Another important sector in the economy is household sector because, you know, it's important to look at whether or not the households -- I mean I'm talking about -- this is a broad term -- yeah? -- on an aggregate basis whether households are in good shape or not. For example, U.S. households are

not in good shape. Why? Well, it's very simple. They've had massive wealth erosion in their pensions, through their pensions, their investment in the stock market as well. Huge, like I remember only the figure for March. I haven't really had a chance to see the figures for April, but, you know, from the peak 18 months ago or so, the U.S. households have lost nearly $20 trillion through stock market and through their house values. So -- and that has an impact on your ability to consume, but also your consumption, you know, your expectations. And, you know, it's not surprisingly so because you get your statement, and you can get it online everyday or you could get it in paper probably every month. And that affects you. Now in the case of Turkey, it's whole different world. I'm not saying every household is in great shape, and we're not talking about specific households here. We're talking about the aggregate, you know, financial position of Turkish households. Now when you look at that, first of all they were caught with $67 billion of hard-currency deposits in the banking sector. I don't know how much they have under mattresses; $67 billion hard currency, meaning dollar or euro or whatever deposits. Now lira lost value, which means they've made money. Secondly, Turkish households are some of the very few households around the world that can still earn positive returns on their deposits, yeah? Meaning the rate of deposit -- the deposit rate -- is higher than inflation rate. In many

countries, because interest rates have fallen so dramatically, deposit rates in many places have been negative. Similarly, Turkish households have had some investments in Turkish local currency bonds, and interest rates have fallen so they made capital gains. But also we know that in Atoria, many of the households don't trust the system and keep some of their savings in gold. We're a major country in terms of gold imports, and, of course, exports as well, but some of it stays home. And, of course, we know what happened to gold prices, both in dollar terms and in lira terms. Now, so if you were to -- but most important of all, let me tell you the last bit. If you look at Turkish household debt to GDP, it's 12 percent. Now this ratio for Eastern Europe is 28 percent. For Western Europe, it's 56 percent. For places like United States, it's 96 percent. So there you go; less leveraged and has experience, relatively less wealth erosion. So in that sense, you know, in that sense, on a relative basis, they are in good shape. And that also should be supportive of economic activity even when they feel comfortable to spend.

Thirdly -- not sure if I -- yeah, I have time -- thirdly, we should look at government sector. You know, how is public sector doing? Now, one of the biggest risks that we face in today's world is that confidence in many governments', in many states' ability to, let's say, to maintain fiscal discipline in the medium term is critical. Budget deficit in places like

United Kingdom, places like United States, or many other countries -- I'm just giving you some, you know, examples -- are going to be somewhere between 10 percent to 15 percent of GDP. Maybe because it's an extraordinary time and some of the contingent liabilities are materializing, and you have to support the economy. It's not a bad thing. According to the IMF, the world economy will shrink by 1.3 percent this year. Now had it not been for fiscal stimulus, meaning government spending to support demand, maybe the world economy would have shrunk possibly by an additional 1.5 percentage points to 2 percent. Now, this is difference between recession and depression by the way, meaning I'm not exaggerating here. But it's, you know, for world economy to be shrinking, you know, that's a huge thing anyway in the first place. This will be the first since Second World War, and so it is important that this fiscal stimulus is there and it's important that there is support. But bottom line is some of the corporate risk is now taking, you know, are being moved to the balance sheets of the governments. So that's why it's important to look at the Turkish government's balance sheet as well.

Now for the past four years -- and that includes 2008, I mean, as you know -- now Turkey's budget deficit to GDP, in a budget deficit ratio to GDP, using European Union definition, meaning standards of calculation, has been less than 1 percent or around 1 percent, I mean

basically. So we've had, the last few years, had really good fiscal discipline, even though some would argue that in the last couple of years, there's been quite a bit of fiscal loosening. But I think by any standards, Turkey's fiscal adjustment since 2000-2001 has been quite impressive, and that's why Turkey's debt-to-GDP ratio has fallen from 74 percent to about 39.5 percent last year on gross basis, in gross terms, and net debt-to-GDP ratio has fallen to about 29 percent. So even in a crisis year like 2008, Turkey was able to keep debt-to-GDP ratio stable. Now, unfortunately, this year, debt-to-GDP ratio in some countries is going to go up by 15 percentage points. In Turkey, probably it will go up by about 5 percentage points. So there will be debt-to-GDP ratio this year, both in the fiscal balance and also in debt numbers. Why? Well, because debt-to-GDP -- so you've got that number -- over GDP, if GDP is shrinking, by definition that will rise. That's one reason. And secondly, at times like these, your revenues fall, and as revenues fall, your deficits rise. So it's only natural. It's not necessarily because we're being irresponsible or we want to spend our way out of this. We know we have limitations even though we do support the real economy. It is simple fact of life that when economic activity slows or declines, your revenue intake is smaller. So that's why.

But we have unveiled a medium-term fiscal framework. We did it in the context of Pre-Accession Economic Program for European Union. We're hoping that we will be just one of big shock, but it would be contained starting in 2010 and 11, meaning reversed later on. So we're hoping we will stabilize debt-to-GDP ratios at the relatively low levels.

Finally, a couple of words on Turkish corporations. Now that is probably -- relative to all other sectors, meaning households, banking, and, you know, government sectors -- Turkish non-bank corporate sector in terms of their external liabilities are relatively weaker because the last few years, you know, we've experienced a boom in the economy and there was essentially private consumption and private investments. And not all of them were financed through internal resources. We don't do that anyway. Some of that essentially was borrowing from overseas. But even that, let me just give you some numbers. If you go back to third quarter of last year, that was when, you know, things were still kind of okay before Lehman was allowed to default, Turkey had a net short effects position in terms of its non-bank corporates of about $86 billion. So Turkish non-bank corporations had $86 billion debt to the rest of the world than the asset it held in the rest of the world or in hard currencies, simplifying it; affects liabilities, foreign-currency liabilities versus foreign-currency assets. It has now fallen quite dramatically. It was down to $78 billion at

the end of the year, and fell another $10 billion, roughly, in, let's say, at the end of March. While Turkish corporates were working out these balance sheets, you know, I mean while rebalancing, while they were in the process of this rebalancing act, there has been no stress. There has been stress in the real economy in terms of output contracting, unemployment rising, but there has not been sort of headlines in terms of defaults and not ability to service. But that's important. They've managed the worst reasonably well because Turkish corporations are stress tested, they have well-established relationships, but equally important, they actually, I mean, this is probably could never quantify, they have never had rollover ratios, meaning debt rollover ratios, less than 100 percent in their foreign debt in terms of long-term, medium-, long-term debt. So they've always had rollover ratios of more than 100 percent. Why is that? Part of it is to do probably to the fact that some of Turkish corporate debt is backed by Turkish corporations' deposits overseas, and some of it also may be to do with the fact that Turkish banks' overseas branches are also lending to Turkish corporates, and that's essentially a Turkish risk. So it's rolled over. But anyway, for whatever reason, for whatever reason, even though there is a weak spot when you look at the headline numbers, that has been so far reasonably manageable in terms of, you know, unlike Russia, for example, or unlike many other countries. So bottom line is if and when

the global recovery comes or financial markets begin to show signs of normalization, I think the spillover to Turkey, the, you know, Turkey's response is going to be fairly short because we have fundamentally good -- well, we have good fundamentals basically. In the banking sector and public sector and households, et cetera.

So that's really where we are. Now we have been taking a lot of measures since September -- actually since April last -- you know, we've boosted spending on infrastructure, hoping that that would help limit the downside in economic activity. We have provided liquidity to the financial sector so that the banks remain supportive of the real sector even though they have not tapped into that liquidity. We have provided support to exporters. We cannot, of course, compensate for lack of German demand, but we can only support exporters if they have something, you know, if there is demand that they have to cover. We have supported employment. We told companies that, "Look, your employees, your workers, are very important assets to your company. Don't put them -- you know, don't lay them off. Here's the deal. You keep them onboard, and we will co-share the wage burden. So if have -- if you are experiencing a sizeable contraction in demand, keep them onboard; in relation to demand contraction, we will help support them." And so far, some -- over 300,000 -- workers within this scheme have applied, and

we've already processed more than or around a third, and so that support is available. But despite that, unemployment rate is rising very fast. Why? Well, it's simple because even if everybody keeps their jobs in an economy like Turkey, unemployment rate tends to rise very fast. How come? Well, it's simple. Turkey has an extremely young population. Our median age is about 28 years, so every year, working-age population is rising somewhere, you know, between 550,000 to 700,000 people. So assuming all of them come to the job market, even if everybody keeps their job, but if the economy is no longer creating additional jobs because the economy's weak, unemployment rate rises very fast. But then on the top of it, interestingly, in times of crisis like this, labor markets rate tends to rise, meaning more people tend to come to the market and say "I'm also, you know, here, looking for job." So that pushes the unemployment rate even higher. So unemployment rate from around 10 percent last year has already risen to 15.5 percent, and, obviously, the risk is that it could still rise further.

But bottom line is, you know, it is important to come up with schemes to contain this. And here is what we are contemplating right now. We're looking at our options to see if we could turn this crisis into an opportunity for Turkey. So we're looking at resources to see if we can train hundreds of thousands of people so that when and if the economy

recovers, those people can quickly find jobs. So we're talking about active labor market policies here. In Turkey, there is a significant shortage of intermediate skills because, you know, everybody either wants to become a university graduate or they finish it off at an ordinary (Turkish), which is high school, where they don't really get many skills. Even though changing the system is a long-term project in terms of improving quality of education and getting more technical people out of schools, but that's the long run. In the short term, we say -- we started this, by the way, last year, the middle of last year. We said look, here is the money. Let's go to every town and find out what sort of skills are in shortage and bring in people onboard, you know, young people, train them two days at school and three days on the job, and give them small pocket money, you know, a couple of hundred dollars, pay their social security premium. So these people are gaining a skill, you know, a profession. Plus, you know, they're a help to companies, so that makes companies more competitive, but also they no longer consider themselves as jobless. And if and when the economy recovers, the skill shortage is covered. So there you go. So there is a lot of work across the board, and we're also still looking at ways of encouraging banks to lend SMEs. So we're working on some sort of credit granting mechanism, but it has not yet been finalized.

Now, I'm supposed to stop here and take a few questions so thank you very much.

MR. TAŞPINAR: Thank you, Minister Şimşek. Using the prerogative of the chair, let me ask first question. We have about 20 minutes for questions.

The initial reluctance of the Turkish government to sign a deal with the IMF was partly explained by the political calendar in Turkey, the fact that there were local elections, and to a certain degree of economic populism. However, what I want to ask you is whether the whole logic of the IMF, which basically comes with a package deal and says "You need to tighten your monetary policy, fiscal policy." At a time of basically economic crisis when unemployment is rising, isn't this counter to standard economics that basically you have to have a fiscal stimulus when your economy is declining? So if a country like Turkey, which has proven fiscal discipline over the last few years, wants to have a fiscal stimulus, was this the reason that basically the government was reluctant to sign a deal that it wanted to have a fiscal stimulus to fight the recession, and not to be subject to the standard economic program of the IMF?

MINISTER ŞIMŞEK: Yeah, you are spot on. I think, you know, there is this orthodoxy within certain institutions and the culture takes time to change. Back in late 1990s, Turkey's biggest problems, I

mean, or the root cause of Turkey's macroeconomic instability or problems -- of course, it was politics, but let's forget about politics and focus on macro here -- it was chronic budget deficit, you know, high chronic budget deficits, which led to unsustainable debt dynamics, which generated a whole set of other problems, weak banking sector, you know, inflation, et cetera, et cetera. So -- and the rest of the world, while Turkey was having this difficulty, were in good shape. Let me just give you some color. In 2001, Turkish exports rose -- I mean, remember in 2001 Turkey had experienced a severe financial crisis, a banking system failure, an exchange rate implosion and all this kind of stuff -- now in 2001, Turkish exports rose 12 percent. Today, within the context of this crisis, Turkish exports are falling between 20 and 25 percent, let's just say 20 percent. At 20 percent decline, relative to a 10 percent increase in exports, means a 5 percentage point impact on GDP. So, I mean just to give you some color. Now, where am I coming from? Back in late 1990s and early 2000, the problem in Turkey was fiscal imprudence. So it was extremely important that you take steps to improve the fiscal balances, you know, you restore fiscal health and through that, you regain confidence of investors, financial markets, and investments come through and, you know, the shrinkage in public spending could be several times more compensated by private sector inflows. But since September last year, it's

a whole different world. The problem is capital drought, meaning emerging markets are faced with essentially, you know, capital starvation. All the channels through which money was flowing to the -- I mentioned private capital inflows -- we can talk about cross-border banking lending. I know it kind of stopped, they stopped. So even if today you, let's say, embark on a massive fiscal adjustment, how that would generate inflows. So that's where we had, obviously, disagreements.

Now from the very beginning when the program finished in May 2008, the idea that we had benefitted significantly from having an external anchor for Turkey's macro, for Turkey's policy framework, and a longer term for anchor such as EU. So the idea was that we would have some sort of (inaudible) extent by arrangement. And, of course, in September-October, there was sort of discussions or negotiations on putting together such a program. And at that time, IMF was insisting on even higher primary surplus, or primary -- yeah, primary surplus, meaning budget surplus outside of interest payments than what actually was committed back in May 2008. So you could see that this would be not a profit, it wouldn't be a profit. And had we agreed at that time, probably the program would have been revised several times by now because it would have been impossible to deliver on the commitments. Unfortunately, you know, that was the case. So it was less for reluctance in terms of, you

know, stigma being attached to the IMF, et cetera. It was more really thinking about what lies ahead and how we could avoid making matters worse than what they are or what they were at that point. And that's why I kept going out and saying "Look, we cannot accept a program that would, you know, worsen the situation rather than improve the situation." What is the point of having money and not being able to support the real sector?

MR. TAŞPINAR: And where do we stand now with IMF?

MINISTER ŞIMŞEK: Well, we have submitted to the IMF a comprehensive program, a program in terms of macro framework, which obviously was revised through -- we did it in the context of Pre-Accession Economic Plan -- on the top of that, a medium-term fiscal framework. So we actually told the IMF that, you know, this is an extraordinary circumstance. Let's focus on fiscal effort so we'll do some fiscal adjustment this year, more next year, and sustain it through 2011, and that way we can regain confidence or maintain confidence in medium-term as well. Plus we also incorporated some significant, far-reaching structural reforms. So there's the commitment in terms of structural reforms, in terms of fiscal adjustment, and in terms of macro framework has been given. We're waiting for IMF to basically respond. Now in terms of structural reforms, you know, we are looking at a fiscal rule. We're looking at strengthening our revenue administration, strengthening or enhancing

our tax audit system, sort of reforming finances of local administrations. So there's quite far-reaching -- I mean it's quite comprehensive. I don't believe that there is any meaningful disagreement on those issues. On the macro framework, IMF has changed its numbers for the rest of the world and for Turkey at least three times since October last. So every time goal post is moved, meaning, well, the numbers keep changing. But we said, "Look, let's put these aside. Let's look beyond it." Now in London, after G20 summit or within the margins of G20 summit, Prime Minister and myself and Deputy Prime Minister, we met the Managing Director and Deputy Managing Director. And there was at that time a tentative agreement on this type of principle that we, you know, we focus on medium term, that this was an extraordinary shock, and that this year the size of fiscal adjustment should be manageable. But more importantly, focus on 2010 and 2011 and, you know, the critical focus being on structural reforms. And that was the position, you know, at that time, and on the basis of that position, we have submitted, as I said, a program, a draft program. So we'll see how they respond.

MR. TAŞPINAR: Thank you. Mitt?

QUESTIONER: The meetings that (inaudible, away from microphone), sir, you said you submitted a comparison plan to the IMF covering macro framework, medium-term fiscal framework, and structural

reforms, and that you're waiting for an answer. When did you submit those to the IMF? Did it just happen in the last couple of days? And are you waiting for an IMF answer and if it's possible, will you be inviting the IMF mission to Turkey, and do you think the whole thing could be wrapped up in, say, something like six or seven weeks?

MINISTER ŞIMŞEK: Thank you. First of all, yes, we did submit our plan, you know, our program recently. It takes two to tango, I've really said this at least twenty times over the past several months. You know, I cannot give you a definitive time in terms of when things can be wrapped up. And, you know, when and if, you know, we can invite the Fund to Ankara because, as I said, you can do your own part and wait for the counterparty to respond. So that's why I'm not in a position to give a timeline here simply because, you know, I can only control, you know, what we can or cannot do rather than what other institutions, how they would respond.

QUESTIONER: My name is Sandy Funder. To what extent is Turkey currently experiencing any significant reverse migration from cities back to rural areas as a result of the current economy?

MINISTER ŞIMŞEK: Thank you. Well, I mean there is some anecdotal evidence not yet reflected in numbers, of course, it's too early. But just to give you some color; when we took the office in 2002,

the share of people or employment, agriculture employment, was about 35 percent. Now remember, in United States it's 1.5 percent. In much of developed world, it's somewhere between, you know, maximum 3 to 5 percent. So when we took over, still some 35 percent of Turkish people were supposedly employed in agriculture sector. That fell I think as low as 22 percent or something like that. So there was a dramatic change with last few years' macro performance. Now whether or not there is going to be a little bit of reversal in this in the short run, as I said, there is some talk of it in some press reports, but it's only anecdotal evidence. And I don't really have a good sense of the numbers there.

QUESTIONER: Minister, thank you very much for --

MR. TAŞPINAR: If you could wait for the microphone please.

QUESTIONER: Thank you very much for that excellent, very comprehensive discussion. It sort of gives up optimism you're saying that the government, that the households, that the banks, people are ready, they're poised for when growth reappears to be able to support it in their own, in their own ways. But my question is sort of more fundamental than that, and one that I'm sure was discussed over the past weekend. Everybody -- every country is thinking about it. And that is that in this world that we're seeing evolve now after this crisis, the question is where

are the sources of growth, the actual sources of growth? I mean, you pointed out a big increase of exports, but then a reduction and, of course, the problem with the EU, that's a whole other discussion. U.S. exports to the United States also are down, although that will never be the top market. Is domestic growth more that, and if so, how are you going to try to stimulate that?

And also, maybe just -- if I could ask you to elaborate a little bit on the SME question? I'm sure that in Turkey it is like it is in many other countries, a tremendous source of jobs, clearly something that is critically important. How do you plan to support the SME sector?

MR. TAŞPINAR: Maybe I'll take one more question, then you can rest these things because we're getting very close to the end --

MINISTER ŞIMŞEK: Well, I'll just respond very quickly. Thank you. I mean, I think it's a very relevant question. What pulled Japan out of a decade-long crisis was the recovery in global growth; it was exports. Now, Turkey -- don't get me wrong, I painted a fairly bleak global picture and that, you know, implication of that for countries for emerging markets, including Turkey, is quite still significant. I'm talking about still global economy being under severe stress, financial markets, and even though we have improved from very, you know, poor panic levels, and the situation applies everywhere. I was just referring to pockets of strength.

Now one important thing about Turkey is that we are a large country and not an open economy. Now let me clarify this. During a crisis like this in the medium term, if it is sustained, if the crisis is sustained, small open economies would be the worst hit because they have limited domestic market and the whole reliance is on external dynamics. Countries like Turkey, you've got exports to GDP of around 20 percent, yeah? That makes us -- we don't want to close the economy, but we are relatively less open because there are countries where export to GDP is more at 70 percent or more than 100 percent or whatever. So there are that type of countries. So relative to -- in relative sense, Turkey is less open and has got a massive domestic market. Turkish GDP last year was estimated at about -- well, it was roughly about $740 billion -- on a PPP basis, about $900 billion. Now, you remember 70 percent is private consumption, so roughly you're talking about anywhere between $500 to $700 billion of domestic consumption market, depending on how you calculate it. And this is quite sizeable. So I think the issue here is that we need to get people out of their shelters, you know. And this is so important, but of course, it's also to do with credit availability. Then the banks could help, but the banks are risk averse because they don't know what lies ahead. So here is where we are. So I'm not saying that, you know, Turkey will no longer be affected. I think Turkey will continue to be affected, but I'm

saying if and when -- and I don't know when because this type of -- this is not an average crisis. This is not an average Joe, you know, circumstance. This is once in a lifetime circumstance, and this is not a physical science, you know. I cannot, you know -- nobody has any sense as to where this thing stops. Some people are talking about years and some people are talking about just around, you know, a couple of quarters down the road. And remember, last year at this time, people were talking about, you know, a mild, you know, downturn and things like that. So we've been there, and I don't want to give you the false sense of confidence there as well. But, of course, at the same time, I should be in a position to also highlight pockets of strength within the Turkish economy, and the numbers are supportive in that sense.

Now SMEs -- the only thing we can do is to set up a credit guarantee fund when using, you know, a bit of risk taking by the banks, a bit of risk taking by the Treasury, and that way you create a pool where you could expand, you know, use that to leverage, yeah? I mean, you know, let's say you have billion lira and you could leverage up seven times, ten times, whatever, and then that provides a little bit of support. So that's the only thing you can do. Other than that, again, it requires, you know, a sense of stabilization. It requires more visibility before really we get the wholesale and sustainable recovery. Now one key condition for

sustainable recovery -- I forgot to mention this -- is our Western friends. They need to address problem assets within the banks, without which, you know, without this, we cannot talk about sustainable global recovery. We cannot. And I cannot, you know, I've been highlighting this on all these platforms here. It's very important because as long as you've got, you know, banks in current state, essentially the system global, the credit mechanism will not work.

MR. TAŞPINAR: Well, on that note --

MINISTER ŞIMŞEK: Have I run out of time?

MR. TAŞPINAR: I think we've come to the end of our time. Let me once again thank Minister of State for Economic Affairs, Mehmet Şimşek.

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CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

/s/Carleton J. Anderson, III

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